



STATE OF DELAWARE

PUBLIC SERVICE COMMISSION

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TO: The Chair and Members of the Commission

FROM: Connie S. McDowell, Senior Regulatory Policy Administrator

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT
COMPANY FOR APPROVAL TO ISSUE UP TO \$350 MILLION OF DEBT SECURITIES
(FILED NOVEMBER 16, 2017) - PSC DOCKET NO. 17-1205

Application:

On November 16, 2017, Delmarva Power & Light Company ("Delmarva" or the "Company") filed an Application ("Application") under 26 Del. C. § 215(e) requesting approval of a three-year financing plan whereby the Company plans to issue over such period up to \$199 million in debt securities and \$151 million of debt securities as permanent long-term financing to repay short-term debt issued to temporarily finance its 2018-2020 construction program in a total aggregate principal amount not exceeding \$350 million. The exact aggregate principal amounts, the interest rates(s) payable, the dates of interest payments, and other particulars of such financings will be determined from time to time by the officers authorized to do so.

Delmarva is planning on using the \$199 million in debt securities to refinance the following. In 1997, Delmarva issued \$12 million of unsecured medium-term notes which have a stated maturity date of 2019. In 1998, Delmarva issued \$4 million of unsecured medium-term notes which have a stated maturity date of 2018. In 1986, 1988, 1993, and 1994, Delmarva issued a total of \$71.5 million of secured tax-exempt variable rate demand bonds ("Secured Tax-Exempt Variable Rate Demand Bonds"), \$26 million of which matured in 2017 and \$45.5 million of which can be put back to Delmarva on any given week or day, respectively. In 1999, Delmarva issued \$33.33 million of unsecured tax-exempt variable rate demand bonds ("Unsecured Tax-Exempt Variable Rate Demand Bonds"), which can be put back to Delmarva on any given week, and in 2010, Delmarva issued \$78.4 million of unsecured tax-exempt bonds ("2010 Tax-Exempt Bonds"), which are currently

outstanding and have a par call in 2020. The stated maturities of the Secured Tax-Exempt Variable Rate Demand Bonds are 2028 and 2029, respectively. The stated maturity of the Unsecured Tax-Exempt Variable Demand Bonds is 2024, and the 2010 Tax-Exempt Bonds stated maturity date is 2031.

The Company seeks the flexibility to obtain permanent long-term financing for up to \$151 million to repay short-term debt anticipated to be incurred to temporarily finance its 2018-2020 construction program. Delmarva's projected capital budget for distribution, transmission and gas delivery projects for the period 2018-2020 is \$950 million. The Company maintains that it is necessary to engage in construction to improve and extend its facilities in order for the Company to better serve its customers.

Staff's Review:

Staff performed a review of the Application and additional supporting documents provided by the Company in conjunction with its Application, including Delmarva's 2016 Annual Report (Form 10-K) filed with the Securities and Exchange Commission on February 13, 2017, Quarterly Reports (Forms 10-Q) filed on May 3, 2017, August 2, 2017 and November 2, 2017, Exhibits and Schedules.

Staff has also reviewed a copy of a legal opinion dated November 15, 2017, by Ms. Christie D. Cannon, Esq., Associate General Counsel for Delmarva, regarding the legality of the proposed issuance of the Debt Securities. This legal opinion represented that the Application and the statements made in the Application that relate to matters of law and legal conclusions are correct.

Staff has reviewed Delmarva's Application for compliance with 26 Del. C. § 215(e) which requires:

- a. The issuances the Company intends to make within three years,
- b. The anticipated times,
- c. The anticipated costs,
- d. The anticipated capitalization ratios,
- e. Any other information that the Commission may require.

Per 26 Del. C. § 215(e), the Commission also established its standard of review. The Commission is to review the plan for consistency with efficient and reasonable financing principles and to approve the financing plan when proposed financing is made in accordance with law, for proper purpose, and consistent with the public interest. Section 215(e) also states that the Commission shall

approve, modify, refuse, or prescribe appropriate terms and conditions with respect to any such plan within 60 days of its filing or the plan shall be deemed approved.

The Company has provided Schedule 4-1 which shows the Actual Capital Structure as of September 30, 2017 and the Proforma Capital Structure after all issuances. See table below:

	Actual Capital Structure as of 9/30/2017	Capital Structure after all issuances
Debt Percentage	50.06%	52.70%
Equity Percentage	49.94%	47.30%

Schedule 4-3 of Delmarva's Application shows that its Ratio of Earnings to Fixed Charges as of December, 31, 2016 is 1.2. The Ratio of Earnings to Fixed Charges is a measure of the Company's ability to cover its fixed charges with the period earnings. Generally, it is thought that a ratio greater than 1 is preferable and indicates that the Company's earnings are sufficiently able to satisfy the Company's obligations.

The Company is requesting that the Commission authorize the issuance of Debt Securities at any time through the year 2020. The Company has committed in its Application that it will make every effort to issue Debt Securities in the most cost-effective manner. The Company plans to issue Debt Securities based upon market conditions in the form of secured first mortgage bonds, unsecured notes, tax-exempt bonds, and secured and unsecured bank loans with maturities between 12 months and 40 years from the date of issuance and may be issued in one or more series. Other terms of the Debt Securities, including call provisions and interest rates, will be determined depending upon the maturities selected and market conditions at the time such terms and rates are set.

Staff's Recommendation:

Staff has reviewed Delmarva's Application for approval of a 3 year financing plan. It is Staff's opinion that the plan is in accordance with law, for a proper purpose, and consistent with the public interest. Therefore, Staff recommends that the Commission approve Delmarva's Application for the reasons stated above and subject to the conditions that: (1) Delmarva may not construe this approval as a

ratemaking treatment for its current and future rate case filings; (2) within 30 days of the closing of the Debt Securities, the Company must file a written report setting forth the actions taken in connection with each such issuance, including any copies of fully executed note agreements relating to this Application; (3) the authority granted in this Application will expire on December 31, 2020; and (4) Delmarva must obtain any additional necessary approvals from the Maryland Public Service Commission and comply with all applicable federal securities laws.